

FINANCE MEMORANDUM
#10-02

DATE: January 28, 2010

TO: Honorable Mayor Joyce Downing and City Council Members

FROM: Bill Simmons, City Manager *WAS*
Shawn Cordsen, Finance Director *SC*

SUBJECT: 2009 Audit Engagement Letter

UPDATE:

Attached is the audit engagement letter from the City's independent audit firm, Swanhorst & Company LLC. The letter serves as standard communication as prescribed in Statements of Auditing Standards No. 114 (SAS 114).

Such communication is being provided due to recent interpretations of SAS 114, which suggest that certain information be communicated prior to the initialization of the audit.

As described in the engagement letter, fees are assessed at a standard hourly rate, plus costs and subject to a maximum of \$40,000 (including single audit work if necessary). Adequate funding is available via the 2010 budget allocation.

This item has been placed on the agenda for Council approval.

STAFF REFERENCE:

If Councilmembers have any comments or questions, you may contact Shawn Cordsen at scordsen@northglenn.org or at 303-450-8719.



January 4, 2010

City Council
City of Northglenn
11701 Community Center Drive
Northglenn, Colorado 80233

We are pleased to confirm our understanding of the services we are to provide to the City of Northglenn. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the City, as of and for the year ended December 31, 2009. Also, the supplementary information will be subjected to the auditing procedures applied in our audit of the financial statements, upon which we will provide an opinion in relation to the basic financial statements. The management's discussion and analysis and required supplementary information will be subjected to certain limited procedures, but will not be audited.

Audit Objective

The objective of our audit is the expression of an opinion as to whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America. Our audit will include tests of the accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining effective internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. You are also responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole.

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud received in communications from employees, former employees, regulators, or others. In addition, management is responsible for identifying and ensuring that the City complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, or violations of contracts or grant agreements that we may report.

With regard to using the auditors' opinion, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraud that comes to our attention. We will also inform you of any other violations of laws or regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinion on the City's financial statements.

An audit is not designed to provide assurance on internal control or to identify deficiencies. However, we will inform the governing board of any matters involving internal control and its operation that we consider to be significant deficiencies or material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Audit Procedures—Compliance

Identifying and ensuring that the City complies with laws, regulations, contracts, and agreements is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City’s compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Audit Administration, Fees, and Other

Our fees for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, typing, postage, copies, telephone, etc.) except that we agree that our maximum fee, including expenses, will not exceed \$35,000. If the City is required to conduct a Single Audit, additional fees will not exceed \$5,000. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to the City of Northglenn and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



Swanhorst & Company LLC

RESPONSE

This letter correctly sets forth the understanding of the City of Northglenn.

By _____

Title _____

Date _____